

# **Business, Households, and Government: Health Care Spending, 1995**

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The authors are with the Office of the Actuary, Health Care Financing Administration (HCFA). The opinions expressed are those of the authors and do not necessarily reflect those of HCFA.

*For the period 1990-1995, we will present data on health care spending by business, households, and government. In addition, we will measure the relative impact of these expenditures on each sector's ability to pay. In 1994 and 1995, health care costs experienced the slowest growth in 3 decades. Combined with healthy revenue growth, slow cost growth helped ease or stabilize the financing burden faced by business, households and government.*

## **INTRODUCTION**

In this dataview, we look at the sponsors of health care, providing statistics on business, household and government health spending. The companion article, "National Health Expenditures 1995" (Levit et al., 1996) presents health care expenditure data in an accounting structure that describes the size, current growth and historical trends of health care by service, matched against the sources that pay the health care bill, such as private health insurance (PHI), and government programs like Medicaid and Medicare. The National Health Expenditures (NHE) structure

provides policy makers, researchers and the public with valuable health care expenditure statistics. However, it does not provide information on the size and impact of rising health costs on the sponsors of health care.

The accounting structure used in this dataview breaks apart the NHE to examine the effects of health care expenditures on the sponsoring sectors. Business, households and government finance health care bill payers through taxes, premium payments (for both private and public health insurance), and general revenues; these sectors also make direct payments to providers. For 1990 through 1995<sup>1</sup> we will present statistics on how much each sponsor spent on health care and the impact of these expenditures on their ability to pay.

Since 1993, a combination of slower health care cost growth and an upswing in the economy has stabilized or eased the burden that business, households and government faced in financing health care. Business, especially, is benefiting from the changing health care cost environment.

During the same period, the government sector continued to pay a larger share of the health care bill. This increase was driven by growth Medicare program expenditures.

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<sup>1</sup>.This article updates previously published information. A complete discussion of methodology and definitions can be found in Cowan, Braden, McDonnell and Sivarajan (1996).

**Expenditures for Health Services and Supplies, by Type of Payer: United States,  
Selected Calendar Years 1990-1995**

| Type of Sponsor   | 1990               | 1991    | 1992    | 1993    | 1994    | 1995    |
|---|--------------------|---------|---------|---------|---------|---------|
|   | Amount in Billions |         |         |         |         |         |
| Total   | \$672.9            | \$736.8 | \$806.7 | \$863.1 | \$906.7 | \$957.8 |
| Private   | 450.8              | 483.4   | 522.4   | 547.0   | 569.5   | 597.4   |
| Private Business  | 185.8              | 200.1   | 217.9   | 229.5   | 239.0   | 249.4   |
| Employer Contribution to Private Health Insurance Premiums  | 138.4              | 148.2   | 162.4   | 172.3   | 177.1   | 183.8   |
| Employer Contribution to Medicare Hospital Insurance Trust Fund <sup>1</sup>  | 29.5               | 32.7    | 34.3    | 36.0    | 40.2    | 43.1    |
| Workers Compensation and Temporary Disability Insurance   | 15.7               | 16.7    | 18.5    | 18.4    | 18.6    | 19.3    |
| Industrial Inplant Health Services  | 2.2                | 2.4     | 2.6     | 2.8     | 3.1     | 3.3     |
| Household   | 245.3              | 261.8   | 282.2   | 293.7   | 306.7   | 323.3   |
| Employee Contribution to Private Health Insurance Premiums and Individual Policy Premiums                                     | 51.3               | 56.8    | 62.6    | 66.4    | 66.0    | 68.5    |
| Employee and Self-Employment Contributions and Voluntary Premiums Paid to Medicare Hospital Insurance Trust Fund <sup>1</sup> | 35.5               | 39.7    | 41.7    | 43.8    | 50.3    | 55.9    |
| Premiums Paid by Individuals to Medicare Supplementary Medical Insurance Trust fund   | 10.1               | 10.3    | 12.1    | 11.9    | 14.4    | 16.3    |
| Out-of-pocket Health Spending   | 148.4              | 155.0   | 165.8   | 171.6   | 176.0   | 182.6   |
| Non-patient revenues  | 19.8               | 21.6    | 22.4    | 23.8    | 23.7    | 24.7    |
| Public  | 222.1              | 253.3   | 284.2   | 316.1   | 337.3   | 360.4   |
| Federal Government  | 115.1              | 135.7   | 159.1   | 179.5   | 189.1   | 203.4   |
| Employer Contribution to Private Health Insurance Premiums  | 9.2                | 9.8     | 10.7    | 11.5    | 11.9    | 11.3    |
| Employer Contribution to Medicare Hospital Insurance Trust Fund   | 2.1                | 2.2     | 2.2     | 2.3     | 2.3     | 2.3     |
| Adjusted Medicare   | 29.8               | 32.0    | 41.2    | 49.8    | 52.1    | 62.7    |
| Medicare <sup>2</sup>   | 110.9              | 121.4   | 136.3   | 148.6   | 164.6   | 183.6   |
| Less Medicare Hospital Trust Fund Contributions and Premiums  | 71.0               | 79.0    | 83.0    | 87.0    | 98.1    | 104.6   |
| Less Medicare Supplementary Medical Insurance Premiums  | 10.1               | 10.3    | 12.1    | 11.9    | 14.4    | 16.3    |
| Health Program Expenditures (Excluding Medicare)  | 74.0               | 91.7    | 105.0   | 116.0   | 122.8   | 129.4   |
| Medicaid <sup>3</sup>   | 43.4               | 57.8    | 69.2    | 78.2    | 83.2    | 88.7    |
| Other Programs <sup>4</sup>   | 30.6               | 34.0    | 35.8    | 37.8    | 39.6    | 40.7    |
| State and Local Government  | 107.0              | 117.6   | 125.2   | 136.6   | 148.1   | 157.0   |
| Employer Contribution to Private Health Insurance Premiums  | 33.5               | 37.5    | 41.2    | 45.2    | 47.7    | 47.1    |
| Employer Contribution to Medicare Hospital Insurance Trust Fund   | 4.0                | 4.4     | 4.8     | 5.0     | 5.3     | 5.6     |
| Health Expenditures by Program  | 69.5               | 75.7    | 79.2    | 86.4    | 95.2    | 104.4   |
| Medicaid <sup>3</sup>   | 33.2               | 37.9    | 39.2    | 43.9    | 49.8    | 55.6    |
| Hospital Subsidies  | 11.3               | 11.0    | 11.1    | 12.4    | 12.3    | 12.3    |
| Other Programs <sup>5</sup>   | 36.3               | 37.8    | 40.0    | 42.6    | 45.5    | 48.8    |

<sup>1</sup> Includes one-half of self-employment contribution to Medicare Hospital Insurance Trust Fund benefits.

<sup>2</sup> Excludes Medicaid buy-in premiums for Medicare.

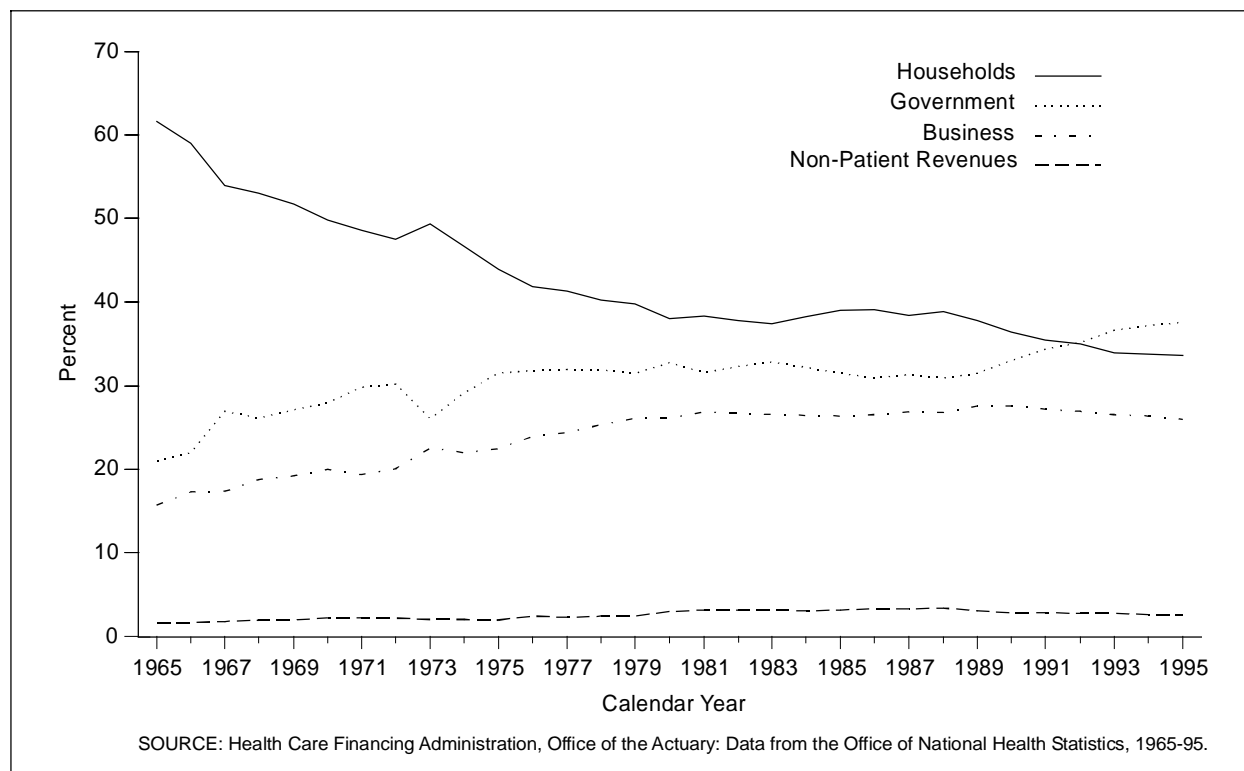
<sup>3</sup> Includes Medicaid buy-in premiums for Medicare.

<sup>4</sup> Includes maternal and child health, vocational rehabilitation, Substance Abuse and Mental Health Services Administration, Indian Health Service, Federal workers' compensation, and other miscellaneous general hospital and medical programs, public health activities, Department of Defense and Department of Veterans Affairs.

<sup>5</sup> Includes other public and general assistance, maternal and child health, vocational rehabilitation, public health activities and hospital subsidies.

SOURCE: Health Care Financing Administration, Office of the Actuary: Data from the National Health Statistics Group

Percent of Total Expenditures for Health Services and Supplies,  
by Sponsor: United States, 1965-1995



## Overall

- Spending for health services and supplies (HSS) (a subset of NHE) reached \$957.8 billion in 1995. Business paid for 26 percent of HSS, households paid for 34 percent, and the public sector paid for 38 percent. Another component, non-patient revenues, made up the remaining 2 percent.
- Over time this relationship among the sponsors has changed. In 1965, households were the primary sponsors of health care. Since then households have been gradually paying for a smaller proportion of HSS and business and the public sector has been paying for a larger proportion. However, by aggressively controlling their health care expenses, business decreased its share of HSS during the 1990's. Actions by the public sector were less dramatic—with the result that the public sector share of health care costs increased significantly during this period after nearly 20 years of relative stability. By 1991, the public sector had bypassed households as the primary sponsor of HSS.

## Business Expenditures for Health Services and Supplies as a percent of Business Expense or Profit: United States, Calendar Years 1990-95

| Year | Business Health Spending as a Share of |                    |                 |                                  |           |
|------|--|--------------------|-----------------|----------------------------------|-----------|
|      | Labor Compensation <sup>1,2</sup>      |                    |                 | Corporate Profits <sup>2,3</sup> |           |
|      | Total Compensation                     | Wages and Salaries | Fringe Benefits | Before Tax                       | After Tax |
|      | Percent                                |                    |                 |                                  |           |
| 1990 | 7.0                                    | 8.3                | 43.2            | 50.1                             | 80.6      |
| 1991 | 7.3                                    | 8.8                | 43.9            | 53.5                             | 83.1      |
| 1992 | 7.5                                    | 9.1                | 44.4            | 53.6                             | 82.7      |
| 1993 | 7.6                                    | 9.1                | 43.7            | 49.4                             | 76.4      |
| 1994 | 7.4                                    | 9.0                | 42.7            | 45.0                             | 71.2      |
| 1995 | 7.3                                    | 8.9                | 42.2            | 41.7                             | 65.6      |

<sup>1</sup> For employees in private industry.

<sup>2</sup> Based on unpublished data from the U.S. Department of Commerce national income and product accounts.

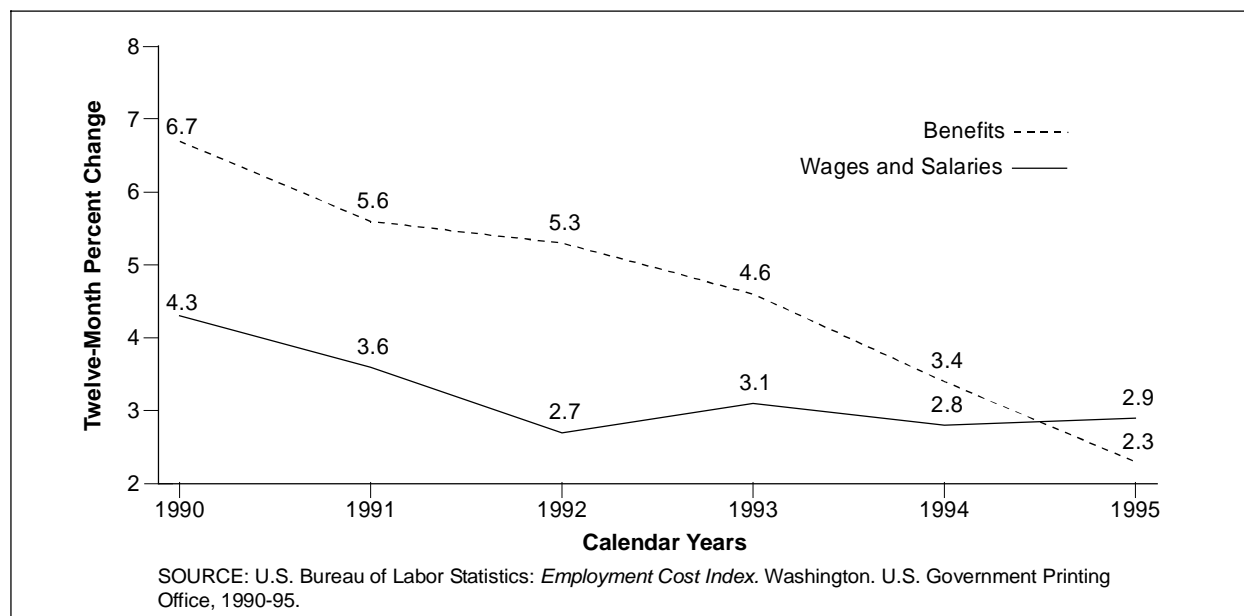
<sup>3</sup> A similar concept of "profits" for sole proprietorship and partnerships is not available.

SOURCE: Health Care Financing Administration, Office of the Actuary and U.S. Department of Commerce, Bureau of Economic Analysis.

### Business

- Business spent \$249.4 billion on health care in 1995, including \$183.8 billion for employer-sponsored health insurance. The 1993 to 1995 average annual growth of 4.3 percent was the slowest since we began to measure business health spending in 1965.
- The burden placed on business eased over the years 1993 through 1995. During this time overall health care costs grew at a slow rate. Also, enrollment in managed care plans grew. These plans generally charged lower premiums than traditional fee-for-service plans. In highly competitive markets, managed care plans also kept premiums low to increase enrollment and boost market share. Lower premiums offered by managed care plans forced increased competition among all insurers. This in turn forced traditional indemnity insurance companies competing with managed care plans to develop new low cost products or lose market share. These marketplace changes contributed to health care costs consuming less of the business's compensation costs and profits.

### Changes in Wages and Salaries and Benefit Costs for Civilian Workers: Calendar Years 1990-95



- According to the Bureau of Labor Statistics' Employment Cost Index (ECI) for civilian workers, wages and salaries have been growing faster than employee benefits<sup>2</sup> since mid-1994. The primary driver of the slow down in benefits growth was the decline in the cost of health benefits. Although a separate health insurance benefit index is not available, the ECI program does publish employer compensation cost levels using current employment weights. Based on that ECI measure, average civilian employer health insurance costs fell 6.2 percent (\$1.29 to \$1.21 per hour worked) between March 1994 and 1995. During the same period, wages and salary costs grew 0.5 percent, from \$13.06 to \$13.12 per hour worked.

<sup>2</sup>Benefits include paid vacation, holidays, sick leave and other leave, supplemental pay, insurance benefits (life, health, sickness, and accident and long-term disability insurance), retirement and savings benefits, legally required benefits (Social Security, unemployment insurance, workers' compensation) and other benefits (severance pay and supplemental unemployment plans). Health benefits are 23.0 percent of total benefits (U.S. Bureau of Labor Statistics, 1996).

## Expenditures of Private Health Insurance, by Sponsor: United States, Calendar Years 1990-1995

| Sponsor  | 1990    | 1991    | 1992    | 1993    | 1994    | 1995    |
|--|---------|---------|---------|---------|---------|---------|
| Amount in Billions   |         |         |         |         |         |         |
| Total Private Health Insurance Premiums                    | \$232.4 | \$252.3 | \$277.0 | \$295.4 | \$302.7 | \$310.6 |
| Employer Sponsored Private Health Insurance Premiums       | 214.5   | 232.7   | 254.2   | 271.9   | 281.3   | 290.3   |
| Employer Contribution to Private Health Insurance Premiums | 181.1   | 195.5   | 214.4   | 229.0   | 236.7   | 242.1   |
| Federal  | 9.2     | 9.8     | 10.7    | 11.5    | 11.9    | 11.3    |
| Nonfederal   | 171.9   | 185.7   | 203.7   | 217.5   | 224.8   | 230.8   |
| Private <sup>1</sup>                                       | 138.4   | 148.2   | 162.4   | 172.3   | 177.1   | 183.8   |
| State and Local  | 33.5    | 37.5    | 41.2    | 45.2    | 47.7    | 47.1    |
| Employee Contribution to Private Health Insurance Premiums | 33.3    | 37.2    | 39.8    | 42.9    | 44.6    | 48.2    |
| Federal  | 3.3     | 3.3     | 3.5     | 3.8     | 3.9     | 3.9     |
| Nonfederal <sup>2</sup>                                    | 30.1    | 33.9    | 36.3    | 39.1    | 40.7    | 44.3    |
| Individual Policy Premiums                                 | 18.0    | 19.6    | 22.8    | 23.5    | 21.4    | 20.3    |
| Percent Change   |         |         |         |         |         |         |
| Total Private Health Insurance Premiums                    | 14.1    | 8.6     | 9.8     | 6.6     | 2.5     | 2.6     |
| Employer Sponsored Private Health Insurance Premiums       | 14.9    | 8.5     | 9.3     | 7.0     | 3.4     | 3.2     |
| Employer Contribution to Private Health Insurance Premiums | 14.7    | 7.9     | 9.7     | 6.8     | 3.3     | 2.3     |
| Federal  | 13.8    | 6.3     | 9.0     | 7.8     | 3.2     | -4.8    |
| Nonfederal   | 14.8    | 8.0     | 9.7     | 6.8     | 3.4     | 2.7     |
| Private <sup>1</sup>                                       | 14.0    | 7.1     | 9.6     | 6.1     | 2.8     | 3.8     |
| State and Local  | 18.1    | 11.8    | 10.0    | 9.6     | 5.4     | -1.3    |
| Employee Contribution to Private Health Insurance Premiums | 16.0    | 11.6    | 7.2     | 7.7     | 3.9     | 8.1     |
| Federal  | -3.1    | 1.3     | 6.7     | 7.4     | 2.7     | -1.2    |
| Nonfederal <sup>2</sup>                                    | 18.6    | 12.7    | 7.2     | 7.7     | 4.0     | 9.0     |
| Individual Policy Premiums                                 | 5.0     | 9.3     | 16.0    | 3.1     | -8.8    | -5.4    |
| Percent of Premiums Paid by Employer                       |         |         |         |         |         |         |
| Employer-Sponsored Private Health Insurance                | 84.5    | 84.0    | 84.3    | 84.2    | 84.1    | 83.4    |
| Federal  | 73.8    | 74.7    | 75.1    | 75.2    | 75.3    | 74.6    |
| Nonfederal   | 85.1    | 84.6    | 84.9    | 84.8    | 84.7    | 83.9    |

<sup>1</sup> Includes employer and employee share of private health insurance premiums for agricultural services.

<sup>2</sup> Employee data is not available separately for private industry and State and local governments.

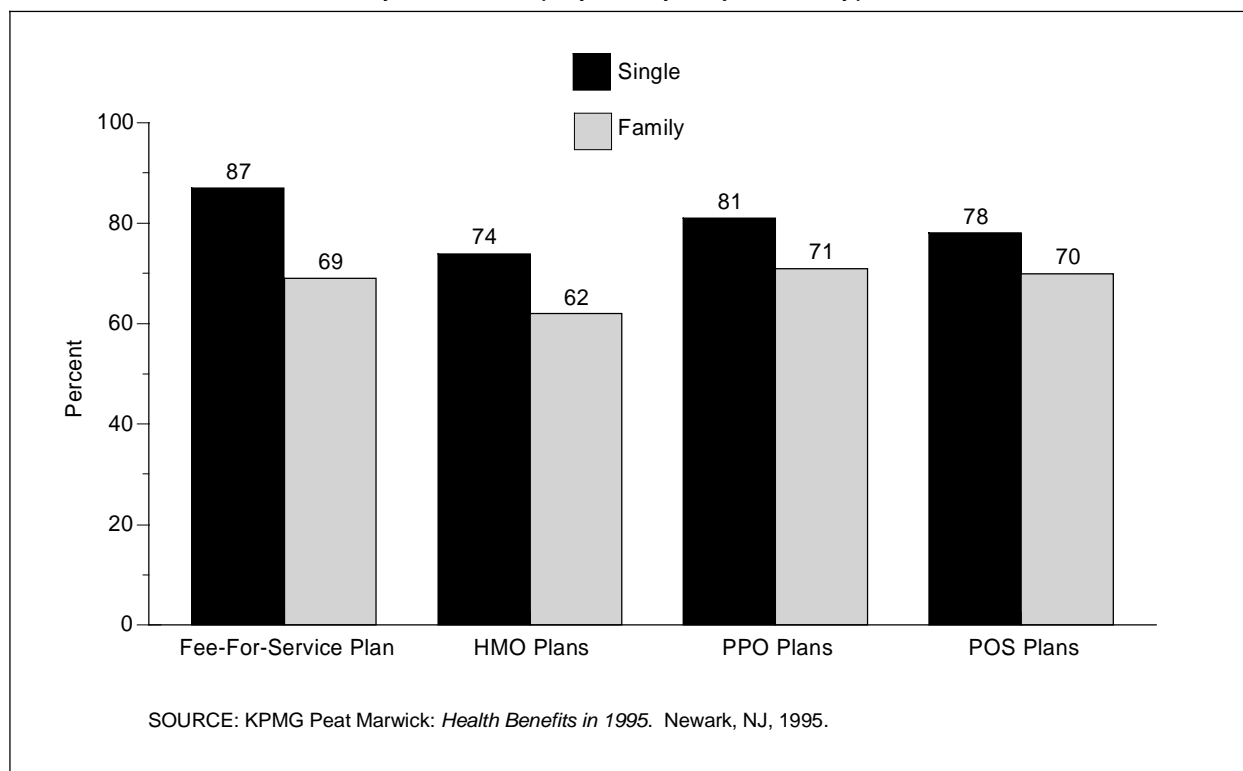
SOURCE: Health Care Financing Administration, Office of the Actuary: Data from the Office of National Health Statistics and Office of Personnel Management.

### Private Health Insurance Premiums

- Private health insurance is obtained primarily through employer-sponsored health plans and health plans purchased separately by individuals<sup>3</sup>. In 1995, private health insurance premiums continued to grow at a slow rate, increasing just 2.6 percent from the previous year.
- Employer-sponsored private health insurance premiums grew only slightly faster than overall premiums. However, the employee share of employer-sponsored health insurance increased 8.1 percent from 1994—more than twice the growth rate of employer contribution to premiums—with the result that the share of health plan premium costs paid by employers inched further downward. In recent years, many employers shifted more of the premium burden to their employees by either requiring workers to contribute to their own health insurance premiums or by raising the required employee premium more rapidly than overall premium cost growth.

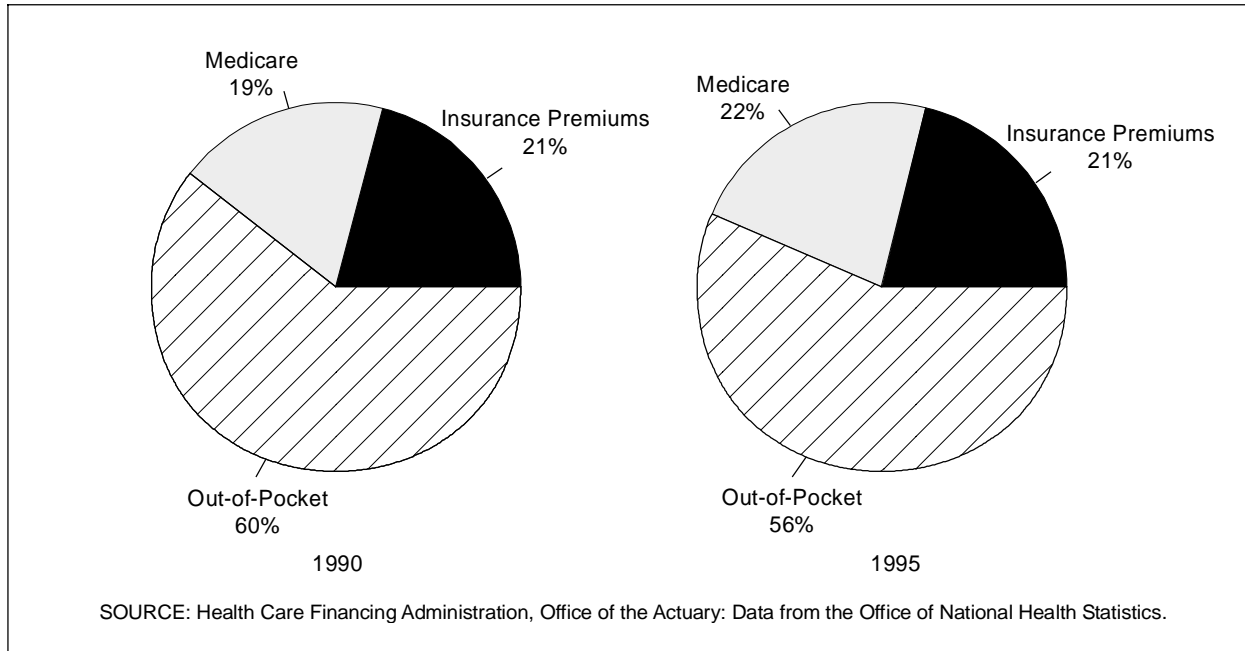
<sup>3</sup> Individual policy premiums also include premiums paid by individuals who purchase insurance through non-employer groups.

Percent of Premiums for Employer-Sponsored Health Insurance Plans  
Paid by Private Employers, by Major Plan Type: 1995



- One factor contributing to the premium cost shift from employers to employees was the migration of covered workers into lower cost managed care plans, such as health maintenance organizations (HMOs), preferred provider organizations (PPOs) and point of service plans (POSs). Although employees generally incurred both reduced out-of-pocket costs and expanded services under a managed care plan, employers typically paid a smaller portion of the total premium for these plans than for traditional indemnity (fee-for-service) plans. Therefore, it is likely that the rapid expansion of managed care enrollment in the 1990's had the effect of boosting the employee share of total premiums.

Components of Household Health Care Spending,  
Selected Calendar Years: 1990 and 1995

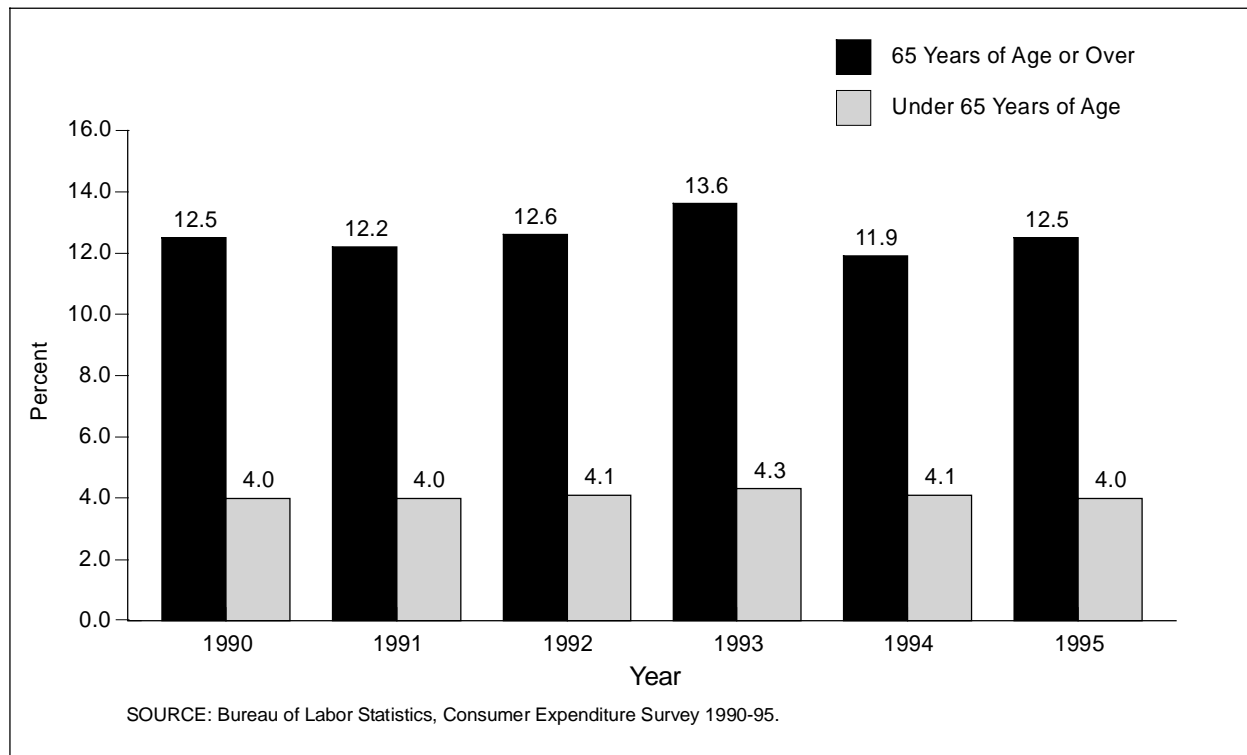


## Households

- Households spent \$323.3 billion on health care in 1995. The majority of spending (\$182.6 billion) was for out-of-pocket health care expenses not covered by insurance and for copayments and deductibles. The remainder was spent on PHI premiums (\$68.5 billion) and premiums and contributions to the Medicare trust funds (\$72.2 billion).
- The switch to managed care affected the level of household out-of-pocket payments. Starting with the late 1980's, the growth in out-of-pocket expenses for health care has been the lowest since 1970. This coincides with the increased enrollment in managed care plans that have lower deductibles and copayments than traditional fee-for-service plans.

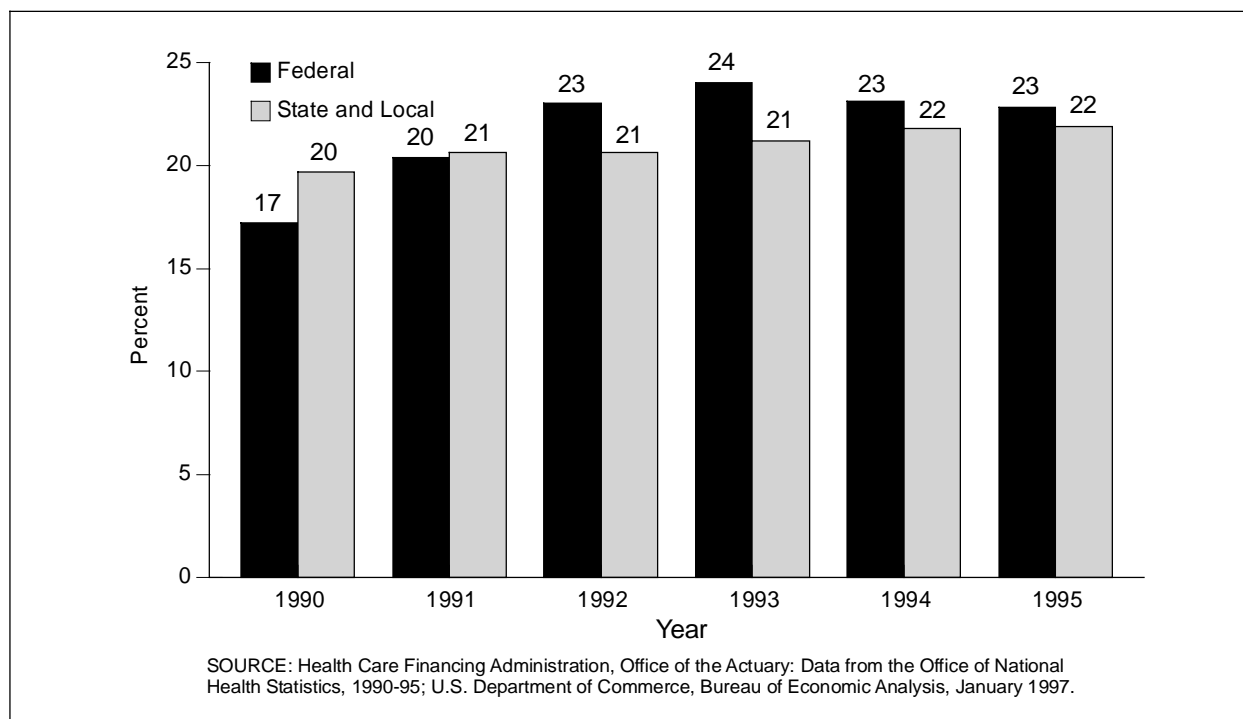


Household Health Spending as a Percent of After-Tax  
Income: Calendar Years 1990-95



- Households pay for health care costs out of available income. On average, the burden to households has remained stable over time. Since 1991, households have paid approximately 5.5 percent of their income after taxes for health care (Bureau of Labor Statistics, 1995).
- According to Consumer Expenditure Survey (CE) data, elderly households (households with reference persons sixty-five years of age or older) spend three times as much of their income after taxes on health care as non-elderly households.

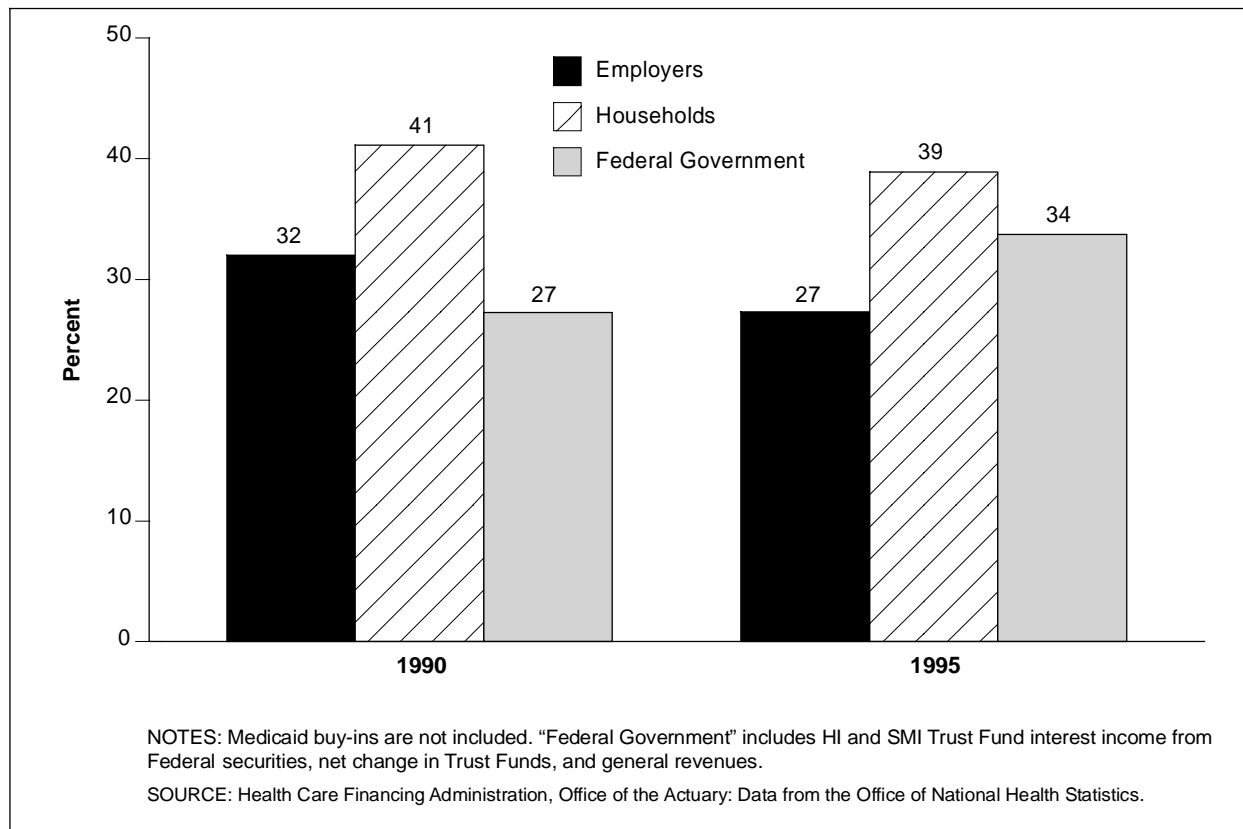
Expenditures for Health as a Percent of Federal, State, and Local Government Revenues, United States: Calendar Years 1990-95



## Government

- In 1995, the public sector paid 38 percent, or \$360.4 billion, of HSS. The Federal government paid \$203.4 billion while State and local government paid \$157.0 billion.
- The portion of Federal government revenues financing health care costs declined slightly in 1994 and 1995 after several years of significant growth. The decrease from 24.0 percent in 1993 to 22.8 percent in 1995 was primarily due to an increase in the Federal revenues rather than a slowdown in Federal health spending.
- Medicare incurred expenditures of \$187.0 billion in 1995, up 11.6 percent from the previous year. The Medicare program is funded through: a) payroll taxes paid by employers and households; b) premiums and income taxes on Social Security benefits paid by households; and c) income from the Federal government. In this accounting scheme, Federal government contributions to the Medicare program include trust fund interest income, net changes in the trust fund balances and transfers from the general fund of the treasury (Board of Trustees of the Federal Hospital Insurance Trust Fund, 1996 and Board of Trustees of the Federal Supplemental Insurance Trust Fund, 1996).

**Percent of Medicare Contributions by Sponsor: 1990 and 1995**



- In 1995, Medicare Hospital Insurance (HI) benefit payments and administrative expenses exceeded income by \$2.6 billion. This financing shortfall was met by redeeming \$2.6 billion in Treasury securities held by the HI trust fund. This necessity contributed to the increase in the government's share of total expenditures in 1995<sup>4</sup>. The disparity between income and expenses is expected to grow rapidly, with the assets of the HI trust fund becoming exhausted about 2001 in the absence of corrective legislation.

<sup>4</sup> All trust fund assets are held in the form of special Treasury securities. In practice, it is not possible to determine whether specific trust fund assets are attributable to past payroll taxes, premiums, interest income, or other sources of revenues. The redemption of trust fund securities results in a cash transaction from the Federal government to the HI trust fund and is thus counted in the Federal government share of Medicare expenditures for the year. Similarly, in years when the trust fund runs a surplus of income over expenditures, the differences are treated as an offset to the Federal government's share.

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